

# **Absolute Return Capital Partners, L.P.**

**Financial Statements  
December 31, 2009**

**Absolute Return Capital Partners, L.P.**  
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**December 31, 2009**

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**Report of Independent Auditors**

To the General and Limited Partners of Absolute Return Capital Partners, L.P.:

In our opinion, the accompanying statement of assets, liabilities, and partners' capital, including the condensed schedule of investments, and the related statements of operations, of changes in partners' capital and of cash flows present fairly, in all material respects, the financial position of Absolute Return Capital Partners, L.P. at December 31, 2009, and the results of its operations, changes in its partners' capital and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the General Partner. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the General Partner, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

March 31, 2010

**Absolute Return Capital Partners, L.P.**  
**Statement of Assets, Liabilities and Partners' Capital**  
**December 31, 2009**

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(All amounts are in U.S. dollars)

**Assets**

|  |                    |
|--|--------------------|
| Investments, at value (cost: \$ 240,903,285)                     | 272,022,881        |
| Cash and cash equivalents  | 373,053,370        |
| Deposit with broker for securities sold short, swaps and futures | 272,820,107        |
| Unrealized gains on swaps, futures and forward contracts         | 2,354,915          |
| Receivable for securities sold                                   | 7,764,496          |
| Dividends and interest receivable                                | 615,205            |
| Other receivables  | 320,098            |
| <b>Total Assets</b>  | <b>928,951,072</b> |

**Liabilities and Partners' Capital**

|  |                    |
|--|--------------------|
| Securities sold short, at value (proceeds: \$ 174,889,073)               | 162,410,696        |
| Due to broker - foreign margin (cost: \$ 97,653,678)                     | 123,355,488        |
| Withdrawals payable  | 15,252,880         |
| Unrealized loss on swaps, futures and foreign currency forward contracts | 11,528,263         |
| Subscriptions received in advance  | 18,750,000         |
| Dividends and interest payable   | 220,646            |
| Accrued expense and other liabilities                                    | 314,314            |
| <b>Total liabilities</b>   | <b>331,832,287</b> |
| Class A – Ordinary interests   | 357,735,076        |
| Class A – Electing interests   | 61,887,768         |
| General Partner  | 177,495,941        |
| <b>Total Partners' Capital</b>   | <b>597,118,785</b> |
| <b>Total Liabilities and Partners' Capital</b>                           | <b>928,951,072</b> |

The accompanying notes are an integral part of these financial statements.

**Absolute Return Capital Partners, L.P.**  
**Condensed Schedule of Investments**  
**December 31, 2009**

| <u>Investments</u>                    | <u>Cost</u>           | <u>Fair Value</u>     | <u>Fair Value as a percentage of Partners' Capital</u> |
|---------------------------------------|-----------------------|-----------------------|--|
| Brookside Capital Partners Fund, L.P. | \$ 9,552,488          | \$ 9,018,094          | 1.5%   |
| Equities - Long                       | 180,271,834           | 211,477,988           | 35.4%  |
| Fixed Income - Long                   | 51,078,963            | 51,526,799            | 8.6%   |
|                                       | <u>\$ 240,903,285</u> | <u>\$ 272,022,881</u> | <u>45.5%</u>   |

| <u>Securities sold short</u> | <u>Proceeds</u>  | <u>Fair Value</u> | <u>Fair Value as a percentage of Partners' Capital</u> |
|------------------------------|------------------|-------------------|--|
| Equities - Short             | \$ (174,889,073) | \$ (162,410,696)  | (27.2)%  |

| <u>Derivative Contracts</u> | <u>Cost</u> | <u>Unrealized Gain/(Loss)</u> | <u>Fair Value as a percentage of Partners' Capital</u> |
|-----------------------------|-------------|-------------------------------|--|
| Contracts for Difference    | -           | \$ 2,008,792                  | 0.3%   |
| Future Swaps                | -           | 600,907                       | 0.1%   |
| Futures                     | -           | (11,682,351)                  | (2.0)%   |
| Foreign Currency Forwards   | -           | (100,696)                     | 0.0%   |
|                             | <u>-</u>    | <u>\$ (9,173,348)</u>         | <u>(1.6)%</u>  |

Geography

| <u>Investments</u> | <u>Cost</u>           | <u>Fair Value</u>     | <u>Fair Value as a percentage of Partners' Capital</u> |
|--------------------|-----------------------|-----------------------|--|
| North America      | \$ 148,012,500        | \$ 170,477,567        | 28.5%  |
| Europe             | 62,930,695            | 68,507,999            | 11.5%  |
| Asia Pacific       | 29,960,090            | 33,037,315            | 5.5%   |
|                    | <u>\$ 240,903,285</u> | <u>\$ 272,022,881</u> | <u>45.5%</u>   |

| <u>Securities Sold Short</u> | <u>Proceeds</u>         | <u>Fair Value</u>       | <u>Fair Value as a percentage of Partners' Capital</u> |
|------------------------------|-------------------------|-------------------------|--|
| North America                | \$ (101,325,084)        | \$ (91,411,998)         | (15.3)%  |
| Europe                       | (36,851,366)            | (37,762,925)            | (6.3)%   |
| Asia Pacific                 | (36,712,623)            | (33,235,773)            | (5.6)%   |
|                              | <u>\$ (174,889,073)</u> | <u>\$ (162,410,696)</u> | <u>(27.2)%</u>   |

The accompanying notes are an integral part of these financial statements.

**Absolute Return Capital Partners, L.P.**  
**Condensed Schedule of Investments (Continued)**  
**December 31, 2009**

| <u>Industry</u>         | <u>Net Value as a Percentage of Partners' Capital</u> |                              |
|-------------------------|---|------------------------------|
|                         | <u>Investments</u>                                    | <u>Securities Sold Short</u> |
| Communications          | 2.1%  | (1.8)%                       |
| Diversified             | 0.4%  | (0.2)%                       |
| Energy                  | 1.3%  | (1.8)%                       |
| Financial               | 3.7%  | (4.0)%                       |
| Industrial              | 4.0%  | (3.9)%                       |
| Consumer, Cyclical      | 4.7%  | (5.1)%                       |
| Consumer, Non- Cyclical | 6.2%  | (4.7)%                       |
| Technology              | 2.0%  | (2.2)%                       |
| Basic Materials         | 1.5%  | (2.0)%                       |
| Utilities               | 1.8%  | (1.5)%                       |
| Funds                   | 9.3%  | 0.00%                        |
| Government              | 8.5%  | 0.00%                        |
|                         | <u>45.5%</u>  | <u>(27.2)%</u>               |

The accompanying notes are an integral part of these financial statements.

**Absolute Return Capital Partners, L.P.**  
**Statement of Operations**  
**For the Year Ended December 31, 2009**

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**Investment income**

|   |                  |
|---|------------------|
| Interest income                                       | \$ 646,134       |
| Dividend income (Net of withholding tax of \$615,513) | 4,931,434        |
| Total investment income                               | <u>5,577,568</u> |

**Expenses**

|  |                   |
|--|-------------------|
| Interest expense                               | 3,001,705         |
| Dividend expense                               | 3,978,400         |
| Management fees                                | 3,872,297         |
| Administration fees                            | 781,639           |
| Research, professional fees and other expenses | 2,269,870         |
| Total expenses                                 | <u>13,903,911</u> |

|                     |                    |
|---------------------|--------------------|
| Net investment loss | <u>(8,326,343)</u> |
|---------------------|--------------------|

**Realized and unrealized gains/(losses)**

|  |                    |
|--|--------------------|
| Net realized gain (losses) from -                                    |                    |
| Investments, securities sold short, futures and swaps                | 87,260,050         |
| Foreign currency transactions and forward foreign currency contracts | 17,514,525         |
|  | <u>104,774,575</u> |

|   |                   |
|---|-------------------|
| Change in unrealized gains (losses) on -                    |                   |
| Investments, securities sold short, futures and swaps       | 63,803,705        |
| Translation of assets and liabilities in foreign currencies | 5,780,751         |
|   | <u>69,584,456</u> |

|                                  |                    |
|----------------------------------|--------------------|
| Net realized and unrealized gain | <u>174,359,031</u> |
|----------------------------------|--------------------|

|   |                       |
|---|-----------------------|
| Net increase in partners' capital from operations | <u>\$ 166,032,688</u> |
|---|-----------------------|

The accompanying notes are an integral part of these financial statements.

**Absolute Return Capital Partners, L.P.**  
**Statement of Changes in Partners' Capital**  
**For the Year Ended December 31, 2009**

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|   | General Partner<br>US\$ | Limited Partner<br>US\$ | Total<br>US\$ |
|---|-------------------------|-------------------------|---------------|
| Allocation of net increase in partners' capital resulting from operations | 42,800,121              | 123,232,567             | 166,032,688   |
| Performance allocation  | 17,857,591              | (17,857,591)            | -             |
| Capital contributions   | 13,232,038              | 62,300,276              | 75,532,314    |
| Capital withdrawals   | (8,008,522)             | (89,817,448)            | (97,825,970)  |
| Total increase  | 65,881,228              | 77,857,804              | 143,739,032   |
| Partners' capital at beginning of year                                    | 111,614,713             | 341,765,040             | 453,379,753   |
| Partners' capital at end of year  | 177,495,941             | 419,622,844             | 597,118,785   |

The accompanying notes are an integral part of these financial statements.



**Absolute Return Capital Partners, L.P.**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2009**

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**Cash flows from operating activities**

|  |                |
|--|----------------|
| Net investment loss                                      | \$ (8,326,343) |
| Purchases of investments                                 | (326,245,503)  |
| Purchases of covers                                      | (489,248,178)  |
| Proceeds from sale of investments in securities, options | 1,101,479,389  |
| Proceeds from securities sold short and options          | 288,757,594    |
| Proceeds from derivative trading                         | 131,569,851    |
| Non cash income earned on investments                    | 3,617,080      |

**Changes in operating assets and liabilities:**

|  |             |
|--|-------------|
| Decrease in dividends and interest receivable                                | 4,637,843   |
| Increase in other receivables  | (5,016)     |
| Decrease in dividends and interest payable                                   | (561,187)   |
| Decrease in accrued expenses and other liabilities                           | (502,777)   |
| Decrease in deposit with broker for securities sold short, swaps and futures | 265,473,627 |

|   |             |
|---|-------------|
| Net cash provided by operating activities | 970,646,380 |
|---|-------------|

**Cash flows from financing activities**

|  |               |
|--|---------------|
| Capital contributions                      | 94,282,314    |
| Capital withdrawals                        | (193,397,786) |
| Decrease in due to broker - margin         | (516,870,789) |
| Decrease in due to broker - foreign margin | (50,436,317)  |
| Net cash used in financing activities      | (666,422,578) |

|                                 |           |
|---------------------------------|-----------|
| Effect of exchange rate changes | 1,499,327 |
|---------------------------------|-----------|

|   |             |
|---|-------------|
| Net increase in cash and cash equivalents | 305,723,129 |
|---|-------------|

|  |            |
|--|------------|
| Cash and cash equivalents at beginning of year | 67,330,241 |
|--|------------|

|   |                       |
|---|-----------------------|
| <b>Cash and cash equivalents at end of year</b> | <b>\$ 373,053,370</b> |
|---|-----------------------|

***Supplemental disclosure of cash flow information***

|  |              |
|--|--------------|
| Cash paid for interest during the year | \$ 2,554,917 |
|--|--------------|

The accompanying notes are an integral part of these financial statements.

**Absolute Return Capital Partners, L.P.**  
**Notes on Financial Statements**  
**December 31, 2009**

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**1. Organization**

Absolute Return Capital Partners, L.P. (the "Partnership") is a Delaware limited partnership formed pursuant to an Agreement of Limited Partnership ("Partnership Agreement") and commenced operations on May 13, 2004. The purpose of the Partnership is to realize appreciation in the value of its assets through investment in securities, both foreign and domestic. The Partnership may utilize leverage, including engaging in trading on margin by borrowing funds and pledging securities as collateral. The general partner of the Partnership is Absolute Return Investors, L.P. (the "General Partner").

The General Partner commenced operations on April 28, 2005 and intends to continue indefinitely until terminated in connection with the dissolution of the Partnership.

Under its prime brokerage agreements, a majority of the assets of the Partnership are held by either Goldman Sachs and Co. or Credit Suisse, both of which act as custodian for the assets. Bank of New York Mellon serves as custodian for a portion of the Partnership's cash balances.

Two of the limited partners, Absolute Return Cayman Limited and Absolute Return Cayman PA, Limited operate under a "master/feeder" structure where they invest all of their investable assets in the Partnership. As of December 31, 2009, these two limited partners had a 20.82% and 0.88% interest, respectively in the Partnership.

**2. Summary of Significant Accounting Policies**

These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from these estimates. All amounts are stated in U.S. dollars.

**Valuation of Investments**

Investments, including futures, are generally valued at the last sale price on the day of valuation on the exchange where the security is principally traded. If no such sale occurred on that day, the General Partner may consider closing market quotations for that day, sales prices or market conditions for a previous day, or other factors in its sole discretion. Contracts for difference are fair valued daily based upon the value of the exchange traded underlying securities and terms of the contracts.

Fixed income securities are stated at value on the basis of valuations furnished by pricing services that determine valuations which are based on market quotations for comparable securities and various relationships between securities that are generally recognized by institutional traders. Changes to prevailing rates or changes in expectations of future rates may result in an increase or decrease in the value of the securities held. In general, if interest rates rise, the value of the fixed interest securities will decline. A decline in interest rates will in general have the opposite effect.

**Absolute Return Capital Partners, L.P.**  
**Notes on Financial Statements**  
**December 31, 2009**

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**2. Summary of Significant Accounting Policies (Cont'd)**

Limited Partnership interests are valued at their net asset value as reported by the Limited Partnership's investment manager, which the General Partner has concluded is representative of fair value.

Swaps are fair valued daily using standard models that incorporate quotations from market makers. The change in value and financing costs are recorded as unrealized gain or loss in the Statement of Operations as a component of change in unrealized gain or loss until the contract is closed. These financial instruments are not actively traded on financial markets. The values assigned to these instruments are based upon the best available information and because of the uncertainty of the valuation, these values may differ significantly from the values that would have been realized had a ready market for these instruments existed, and the differences could be material. These transactions comprise both listed contracts such as futures contracts and equity/index swaps and over the counter contracts such as interest rate swaps and credit default swaps. Derivatives traded on an exchange are valued at the closing price from the relevant exchange. Forward currency contracts are fair valued daily using forward currency exchange rates.

ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

**Level 1** - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

**Level 2** - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;

**Level 3** - Inputs that are unobservable.

Inputs are used in applying the various valuations techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the General Partner.

The General Partner considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the General Partner's perceived risk of that instrument.

**Absolute Return Capital Partners, L.P.**  
**Notes on Financial Statements**  
**December 31, 2009**

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**2. Summary of Significant Accounting Policies (Cont'd)**

In determining an instrument's placement within the hierarchy, the General Partner separates the Partnership's investment portfolio into two categories: investments and derivative instruments. Each of these categories can further be divided between those held long or sold short.

*Investments.* Investments whose values are based on quoted market prices in active markets, and therefore classified with level 1, include active listed equities and certain U.S. government and sovereign obligations. The General Partner does not adjust the quoted price for such instruments, even in situations where the Partnership holds a large position and a sale could reasonably impact the quoted price.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified with level 2. These include certain U.S. government and sovereign obligations and most government agency securities. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified with level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include Limited Partnership investments. When observable prices are not available for these securities, the General Partner used one or more valuation techniques for which sufficient and reliable data is available.

The inputs used by the General Partner in estimating the value of level 3 investments include the original transaction price and recent transactions in the same or similar instruments. Level 3 investments may also be adjusted to reflect liquidity and/or non-transferability, with the amount of such discount estimated by the General Partner in the absence of market information. The fair value measurement of level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis. Assumptions used by the General Partner due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Partnership's results of operations.

*Derivative Instruments.* Derivative instruments can be exchanged-traded or privately negotiated over-the-counter ("OTC"). Exchange-traded derivatives, such as futures contracts and exchange traded option contracts, are typically classified within level 1 or level 2 of the fair value hierarchy depending on whether or not they are deemed to be actively traded.

OTC derivatives, including forwards, credit default swaps, total return swaps, and interest rate swaps, are valued by the General Partner using observable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where the models are used, the value of an OTC derivative depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs.

**Absolute Return Capital Partners, L.P.**  
**Notes on Financial Statements**  
**December 31, 2009**

**2. Summary of Significant Accounting Policies (Cont'd)**

Certain OTC derivatives, such as generic forwards and swaps, have inputs which can generally be corroborated by market data and are therefore classified with level 2.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following is a summary of the levels within the fair value hierarchy in which the Partnership invests as of December 31, 2009:

*(Dollars in Thousands)*

| <b>Assets</b>                          | <b>Level 1</b>      | <b>Level 2</b>    | <b>Level 3</b>  | <b>Total</b>        |
|--|---------------------|-------------------|-----------------|---------------------|
| Cash equivalents                       | \$ 199,258          | \$ -              | \$ -            | \$ 199,258          |
| Investments                            |                     |                   |                 |                     |
| Equity securities:                     |                     |                   |                 |                     |
| Market/Sector Neutral Equity Selection | 165,130             | -                 | -               | 165,130             |
| Equity Index                           | 46,348              | -                 | -               | 46,348              |
| Debt issued by U.S. Treasury           | -                   | 22,514            | -               | 22,514              |
| Debt issued by foreign government      | -                   | 29,013            | -               | 29,013              |
| Investment in Funds                    | -                   | -                 | 9,018           | 9,018               |
| Total Investments                      | 410,736             | 51,527            | 9,018           | 471,281             |
| Derivative Instruments                 | 28,244              | 8,376             | -               | 36,620              |
| <b>Total assets</b>                    | <b>\$ 438,980</b>   | <b>\$ 59,903</b>  | <b>\$ 9,018</b> | <b>\$ 507,901</b>   |
| <b>Liabilities</b>                     | <b>Level 1</b>      | <b>Level 2</b>    | <b>Level 3</b>  | <b>Total</b>        |
| Securities sold short                  | \$ -                | \$ -              | \$ -            | \$ -                |
| Equity securities:                     |                     |                   |                 |                     |
| Market/Sector Neutral Equity Selection | (162,411)           | -                 | -               | (162,411)           |
| Total Investments                      | (162,411)           | -                 | -               | (162,411)           |
| Derivative Instruments                 | (39,926)            | (5,867)           | -               | (45,793)            |
| <b>Total liabilities</b>               | <b>\$ (202,337)</b> | <b>\$ (5,867)</b> | <b>\$ -</b>     | <b>\$ (208,204)</b> |

The following is a reconciliation of Level 3 investments for the year ended December 31, 2009:

*(Dollars in Thousands)*

| <b>Assets</b>                           | <b>Investment in Brookside Capital Partners Fund L.P.</b> |
|---|---|
| <b>Level 3</b>                          |   |
| Beginning Balance as of January 1, 2009 | \$ 51,924   |
| Realized gain/(loss)                    | 1,229   |
| Change in unrealized gain (loss)        | 6,664   |
| Net purchases (sales)                   | (50,799)  |
| Ending Balance as of December 31, 2009  | <u>\$ 9,018</u>   |



**Absolute Return Capital Partners, L.P.**  
**Notes on Financial Statements**  
**December 31, 2009**

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**2. Summary of Significant Accounting Policies (Cont'd)**

All net realized and unrealized gains (losses) in the table above are reflected in the accompanying statement of operations. Net unrealized gains (losses) relate to those financial instruments held by the Partnership at December 31, 2009. Changes in unrealized gains (losses) relating to assets still held as of December 31, 2009 are appropriately presented in the reconciliation above.

The valuation technique used by the Partnership to measure fair value during the year ended December 31, 2009 was the market approach which maximized the use of observable inputs and minimized the use of unobservable inputs. This approach focused on valuing securities based on identical or comparable assets, rather than relying on quoted prices.

**Securities Transactions and Investment Income**

Securities transactions are accounted for on the trade date. Realized gains and losses on investment transactions are determined on the identified cost method. Premiums and discounts on securities are amortized / accreted on an effective yield basis over the remaining lives of the respective securities.

Dividend income, net of applicable withholding taxes, and dividend expense are recorded on the ex-dividend date. Interest income and expense is accrued as earned. Income received in-kind is recorded at the fair value of the securities received.

**Cash and Cash Equivalents**

The Partnership considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. For the purpose of the statement of cash flows, cash is comprised of cash at banks that is not held as collateral for investments.

Additionally, included in cash and cash equivalents is an investment in a money market fund. The money market fund invests in a portfolio of short-term U.S. Treasury securities and is a Regulated Investment Company. The total amount of the Partnership's investment in the money market fund at December 31, 2009 is \$199,257,957 which represents 33.4% of the partner's capital. The Partnership valued its investment in the money market fund based on its closing net asset value at December 31, 2009.

**Deposit with broker for securities sold short, swaps and futures**

Deposit with broker for securities sold short, swaps and futures represents funds maintained in interest bearing cash accounts with the custodians or brokers. Such funds are restricted by regulation of broker mandated limits. This amount includes foreign cash of \$72,757,504 with cost of \$73,028,591.

**Foreign Currency Translation**

The books and records of the Partnership are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions. The Partnership may be exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an

**2. Summary of Significant Accounting Policies (Cont'd)**

adverse effect on the value of that portion of the Partnership's assets or liabilities denominated in currencies other than the reporting currency. The Partnership does not isolate the portion of the results of operations arising as a result of changes on foreign exchange rates on investments transactions from the fluctuations arising from changes in the market prices of securities.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, gains and losses on foreign currency exchange transactions and foreign currencies, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received.

**Securities Sold Short**

Upon selling a security short, the Partnership recognizes the proceeds received as a deposit with the broker for securities sold short and swaps in its Statement of Assets, Liabilities and Partners' Capital and securities sold short is established as an offsetting liability.

The liability is marked-to-market while the position remains open to reflect the current settlement obligation and the amount of collateral is adjusted accordingly.

When a closing purchase is entered into by the Partnership offsetting the security sold short, a gain or loss is realized based on the difference between the proceeds originally received and the purchase cost. In connection with borrowing securities for short sales, the Partnership is charged a stock loan fee which is netted against interest expense.

The Partnership has unlimited market risk to the extent it has obligations relating to securities sold, but not yet purchased. These transactions involve an obligation to purchase such securities at a future date. The Partnership may incur losses in excess of the amounts reflected in the financial statements if the market value of the securities subsequently increases. Further, in unusual circumstances, the Partnership may be unable to repurchase securities to close its short positions except at prices above those previously quoted in the market.

**Futures Contracts**

The Partnership enters into future contracts as part of its investment strategies. The Partnership invests in futures contracts, including equity index futures, commodities futures, government futures and currency futures. Futures contracts involve, to varying degrees, credit and market risks. The Partnership enters into futures contracts only on exchanges or boards of trade where the exchange or board of trade acts as the counterparty to the contract. Thus, credit risk on such contracts is limited to the failure of the exchange or board of trade. A futures contract sale creates an obligation by the purchaser to take delivery of the type of commodity or financial instrument called for in the contract in a specified delivery month at a stated price. Although many futures contracts by their terms call for actual delivery or acceptance of commodities or securities, in most cases the contracts are closed out before the settlement date without the making or taking of delivery. If the Partnership is unable to enter into a closing transaction, the amount of the Partnership's potential loss is unlimited.

The Partnership may also buy and sell index futures contracts. An index futures contract is a contract to buy or sell units of an index at a specified future date at a price agreed upon when the contract is made.

**Absolute Return Capital Partners, L.P.**  
**Notes on Financial Statements**  
**December 31, 2009**

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**2. Summary of Significant Accounting Policies (Cont'd)**

No price is paid or received by the Partnership upon the purchase or sale of a futures contract. Upon entering into a contract, the Partnership is required to deposit with the futures broker an amount of liquid assets. This amount is known as "initial margin". Subsequent payments, called "variation margin" or "maintenance margin", to and from the broker are made on a daily basis as the price of the underlying security or commodity fluctuates.

Futures contracts are marked-to-market daily based on the exchange's settlement price and the change in value is recorded as an unrealized gain or loss. Realized gains or losses equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed are recorded upon delivery or acceptance of commodities or securities or, if a futures contract is offset by entering into another futures contract, upon settlement of the net gain or loss.

**Forward Currency Contracts**

The Partnership enters into forward currency contracts as part of its investment strategies or to hedge the currency exposure associated with some or all of the Partnership's securities. A forward currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date.

Realized gains or losses equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed are recorded upon delivery or receipt of the currency or, if a forward currency contract is offset by entering into another forward currency contract with the same broker, upon settlement of the net gain or loss. The Partnership may be exposed to risk if the counterparties are unable to meet the terms of the contract or if there are movements in foreign currency values that are unfavorable to the Partnership.

**Interest Rate and Equity Swaps**

The Partnership enters into swap agreements to manage its exposure to the financial markets. A swap is an agreement to exchange the return generated by one instrument for the return generated by another instrument. The Partnership enters into interest rate and equity swap agreements to manage its exposure to interest rates. Interest rate swap agreements involve the exchange by the Partnership with another party of their respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments with respect to a notional amount of principal.

Equity swap agreements involve commitments to pay interest in exchange for a market linked return, based on a notional amount. To the extent the total return of the security or index underlying the transaction exceeds or falls short of the offsetting interest rate obligation, the Partnership will receive a payment from or make a payment to the counterparty respectively.

In connection with these agreements, cash or securities may be set aside as collateral by the Partnership's counterparty in accordance with the terms of the swap agreement. Payments received or made on swap contracts are recorded as realized gain or loss in the Statement of Operations. Entering into these agreements involves, to varying degrees, elements of credit, legal, market and documentation risk in excess of the amounts recognized on the Statement of Assets, Liabilities and Partners' Capital. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform or disagree as to the meaning of contractual terms in the agreements, or that there may be unfavorable changes in interest rates.



**2. Summary of Significant Accounting Policies (Cont'd)**

**Counterparty Credit Risk**

Counterparty credit risk is the risk that a counterparty to a financial instrument will fail on a commitment that it has entered into with the Partnership. The Partnership minimizes concentrations of counterparty credit risk by undertaking transactions with multiple counterparties and by monitoring the creditworthiness of these counterparties and managing margin and collateral requirements, as appropriate.

**Offsetting**

Assets and liabilities are offset and the net amount reported in the Statement of Assets, Liabilities and Partners' Capital when there is a legally enforceable right to offset the recognized amounts. On the Condensed Schedule of Investments, derivative contracts are presented net by type of derivative contract.

**Expenses**

The Partnership bears its own expenses, including but not limited to research expenses, fund administration, legal expenses, accounting, audit, tax preparation expenses and other expenses associated with the operation of the Partnership.

**Income Taxes**

As a partnership, the Partnership itself is not subject to U.S. Federal or state income taxes; each Partner is individually liable for income taxes, if any, on its share of the Partnership's net taxable income. Interest, dividends and other income realized by the Partnership from non-U.S. sources and capital gains realized on the sale of securities of non-U.S. issuers may be subject to withholding and other taxes levied by the jurisdiction in which the income is sourced.

For foreign partners invested in the Partnership, a reduction in capital has been made for withholding taxes (30% or lower treaty rate) on their allocable share of dividends as well as certain interest and other income received by the Partnership from sources within the United States.

The Partnership adopted amended accounting principles related to the accounting for uncertainty in income taxes, ASC 740 (formerly FIN 48) as of January 1, 2009. ASC 740 (formerly FIN 48), as amended by established financial accounting and disclosure requirements for recognition and measurement of tax positions taken or expected to be taken on a tax return. The General Partner has reviewed the Partnership's tax positions for all open tax years and has concluded that no provision for income tax is required in the Partnership's financial statements. Such open tax years remain subject to examination by tax authorities.

**3. Management Fee and Operating Expenses**

The Partnership entered into arrangements with Absolute Return Capital, LLC (the "Management Company"), an affiliate of the General Partner. In consideration for a management fee, the Management Company provides administrative and operational services to the Partnership. The management fee is charged at an annual rate of 1% of the capital accounts of each limited partner that is not a related person, as defined in the Partnership Agreement.

**Absolute Return Capital Partners, L.P.**  
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**3. Management Fee and Operating Expenses (Cont'd)**

The management fee is calculated and payable in advance on the first business day of each fiscal quarter. However, if a Limited Partner has elected in such Limited Partner's Subscription Agreement to have Class A Interests issued to such Limited Partner on or after September 1, 2007 treated as "Electing Interests" then the management fee determined with respect to such Electing Interest Partner shall be payable at an annual rate equal to 1.5%. The Management Company may elect before the first day of any fiscal period to treat all or a portion of any investment as a Non-Management Fee Investment with respect to one or more Limited Partners for such fiscal period.

The Partnership also entered into arrangements with Bain Capital, LLC, an affiliate of the Management Company, in which certain expenses of the Partnership are paid by this affiliate and reimbursed by the Partnership. At December 31, 2009, there were no amounts payable in relation to this arrangement.

**4. Partner Capital Accounts and Allocations**

Capital contributions into the Partnership are accepted at the General Partner's discretion. Except as otherwise described below with respect to Electing Interests, withdrawals of all or any portion of a Limited Partner's capital contribution are permitted after the second anniversary of such capital contribution, and thereafter, as of the last business day of any month, or the first business day of any fiscal year subject to certain limitations set forth in the Partnership agreement. Electing Interests are not subject to the two-year lock-up period. The General Partner is required to maintain an interest in the Partnership of at least 1% of total partners' capital. However, at its own discretion, the General Partner may from time to time contribute amounts in excess of the minimum requirement.

The allocation of profits and losses of the Partnership is determined based upon the provisions of the Partnership Agreement. The allocations for each fiscal period are made at the close of the fiscal period, and are generally based on the relative balance in each partner's capital account, except as noted below.

**New Issues**

Realized and unrealized profits and losses on certain securities involving initial public offerings ("new issues") are allocated in accordance with the Financial Industry Regulatory Authority, Inc. ("FINRA") Rules. FINRA rules allow the Partnership to rely on a "de minimis" exemption for "restricted persons" called the Non-New Issue Partners. New issues profits and losses are allocated based upon each Partner's relative balance of the Partners' capital account at the beginning of each fiscal period. The Non-New Issue Partners are allocated up to 10% of these profits and losses. The remaining new issues profits and losses are allocated to the New Issue Partners.

At the end of each fiscal period, the capital accounts of Non-New Issue Partners are credited with interest at a specified rate on their proportionate share of the funds utilized to purchase 90% of the New Issue securities. During the year ended December 31, 2009, the Partnership did not participate in any new issues.

**Absolute Return Capital Partners, L.P.**  
**Notes on Financial Statements**  
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**4. Partner Capital Accounts and Allocations (Cont'd)**

**Reallocations to the General Partner**

The General Partner receives a performance allocation equal to 20% of the net profits of the Partnership in excess of the hurdle rate otherwise apportioned to each limited partner. The hurdle rate for a fiscal period is equal to the three month Treasury average rate for such fiscal period (average annual hurdle rate for 2009 was 0.13%). For Electing Interest Partners performance allocation is equal to 20% of the net profits of that Partner and no hurdle is applied. The General Partner may waive its performance allocation with respect to any limited partner who is a related person, as defined in the Partnership Agreement. The General Partner is also authorized to elect in advance to exclude profits and losses attributable to any investment from the calculation of its performance allocation. The performance allocation will generally be determined on an annual basis and will take into account any net losses allocated in the prior fiscal year with adjustments for limited partner withdrawals, as described in the Partnership Agreement. At December 31, 2009, the General Partner received \$17,857,591 from performance allocation crystallized due to redemptions and year end allocation.

**5. Administrator**

International Fund Services (Ireland), Limited is appointed administrator of the Partnership subject to the General Partner's supervision. The Administrator has responsibility for the administration of the Partnership's affairs, except with respect to the investment advisory responsibilities performed by the Investment Advisor.

**6. Related Party Transactions**

At December 31, 2009, there are 3.51% of affiliated Limited Partners in the Partnership.

Also, at December 31, 2009, the Partnership holds an investment in Brookside Capital Partners Fund, L.P., a long-short equity hedge fund, managed by Brookside Capital, LLC, an affiliate of the General Partner, fair valued at \$9,018,094. The Partnership has elected to waive a portion of the management and performance fee attributable to its investment in Brookside.

During the year ended December 31, 2009, the Partnership was charged \$633,333 in Brookside management fees and there was \$82,668 in carried interest. Investments are generally reported at value as provided by Brookside Capital Investors, L.P., the General Partner to Brookside. Generally, such fair value represents the Partnership's capital balance or percentage ownership of net assets (0.09%) in Brookside as reported by Brookside Capital Investors, L.P. At December 31, 2009, the investment in Brookside approximates to 1.51% of Partners' capital.

The Partnership's investment in Brookside was made in two tranches. The first, made in October 2005 for \$60,000,000 was redeemed by the Partnership effective December 31, 2008. The second, made in July 2007 for \$50,000,000, was redeemed by the Partnership effective September 30, 2009. The Partnership's remaining investment in Brookside is comprised of securities that Brookside has designated and will be redeemed when the related investments are realized.

**Absolute Return Capital Partners, L.P.**  
**Notes on Financial Statements**  
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**7. Other Required Disclosure**

The Partnership has adopted the provisions of the ASC 946-205 (formerly Statement of Position 03-4), which requires the Partnership to disclose certain financial information for the Partnership's most recent fiscal year. The total return and financial ratios presented below are calculated for limited partners. An individual partner's return may vary based upon timing of capital transactions and different management and performance fee arrangements. Accordingly, for the year ended December 31, 2009, the ordinary interests' total return was 36.80% before performance allocation and 31.39% after performance allocation. The electing interests' total return was 36.04% before performance allocation and 31.19% after performance allocation.

The General Partner believes that the following disclosure of ratio of net investment income to average limited partners' capital as required under this provision may not necessarily be an appropriate measure for this Partnership since the majority of its return is generated from capital appreciation. The ratio of net investment income to average ordinary interests' capital for the year ended December 31, 2009 was (1.67%). The ratio for the electing interests was (2.37%). The General Partner believes that the following disclosure of ratio of expenses to average limited partners' capital as required under this provision may not necessarily be an appropriate measure for this Partnership as it includes dividend and interest expenses which are incurred in the normal course of business. The ratio of total expenses to average ordinary interests' capital before and after performance allocation was 2.71% and 7.23%, respectively. The ratios for the electing interests were 2.81% and 4.02% respectively.

**ASC 815-10 (formerly FAS 161)**

Effective January 1, 2009, the Partnership adopted amendments to current GAAP guidance on disclosures about derivative instruments and hedging activities which require that the Fund disclose: a) how and why an entity uses derivative instruments, b) how derivative instruments and related hedged items are accounted for and c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The Partnership transacts in a variety of derivative instruments including futures, forwards, swaps and options primarily for trading purposes with each instrument's primary risk exposure being interest rate, credit, foreign exchange, equity or commodity risk. Changes in fair value are reflected as realized gains (losses) or net change in unrealized gains (losses) on derivatives within the Statement of Operations.

The standard enhances the disclosure requirements for derivative instruments and related hedging activities and thus, the adoption of the standard had no impact on the Statement of Assets, Liabilities, and Partners Capital, Statement of Operations or the Statement of Changes in Partners' Capital.

**Absolute Return Capital Partners, L.P.**  
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**7. Other Required Disclosure (Cont'd)**

The following table lists the fair value of derivatives by contract as included in the Statement of Assets, Liabilities, and Partners Capital.

**Balance Sheet Disclosure**

| <i>(Dollars in Thousands)</i>                      | Average<br>Notional<br>Outstanding | Gross Derivative<br>Assets | Gross Derivative<br>Liabilities |
|--|------------------------------------|----------------------------|---------------------------------|
| <b>Derivative contracts for trading activities</b> |                                    |                            |                                 |
| Foreign exchange contracts                         | \$ 263,497                         | \$ 4,177                   | \$ 4,443                        |
| Commodity contracts                                | 525,845                            | 23,684                     | 28,294                          |
| Equity contracts                                   | 288,888                            | 6,283                      | 3,946                           |
| Interest rate contracts                            | 583,123                            | 2,476                      | 9,110                           |
| <b>Total</b>                                       |                                    | <b>\$ 36,620</b>           | <b>\$ 45,793</b>                |

Interest Rate Contracts notional adjusted to 10-year duration equivalent amounts. Long and short notional exposures exclude offsetting positions. The average notional outstanding related to credit contracts during the year was \$348 million. The Partnership had no exposure to credit contracts as of December 31, 2009.

The following table provides information about gains and losses on derivatives, by contract type, as included in the Partnership's Statement of Operations for the year ended December 31, 2009.

**Profit & Loss Disclosure**

| <i>(Dollars in Thousands)</i> | Realized Gains/(losses) Period<br>Ended December 31, 2009 | Unrealized Gains/(losses) Period<br>Ended December 31, 2009 |
|-------------------------------|---|---|
| Foreign exchange contracts    | 7,399   | 9,889   |
| Commodity contracts           | 90,373  | (22,165)  |
| Credit contracts              | (4,950)   | 13,149  |
| Equity contracts              | 13,388  | 4,328   |
| Interest rate contracts       | 25,322  | 11,485  |
| <b>Total</b>                  | <b>131,532</b>  | <b>16,686</b>   |

**8. Contingencies and commitments**

In the normal course of business, the Partnership enters into contracts that contain a variety of representations and warranties which provide general indemnifications. The Partnership's maximum exposure under these arrangements is unknown as this would involve future claims that may be against the partnership that have not yet occurred. However, based on experience, the General Partner expects the risk of loss to be remote.

**9. Subsequent Events**

Management has evaluated the events and transactions that have occurred through March 31, 2010, the date the financial statements were issued, and noted no items requiring adjustment of the financial statements or additional disclosures.